FISCAL NOTE

Bill #: HB0039 **Title: Exempt business equipment from property taxation**

Primary Sponsor: Kim Gillan **Status: As introduced**

Sponsor signature Date Dave Lewis, Budget Director Date

Fiscal Summary

	FY2000 Difference	FY2001 Difference
Expenditures:		
General Fund	**$92,400**	**$1,136,757**
Revenue:		
General Fund	**($1,679,314)**	**($4,476,343)**
State Special Revenue	**($168,313)**	**($448,651)**
Net Impact on General Fund Balance:	**($1,771,714)**	**($5,613,100)**

Yes	No		Yes	No	
X		Significant Local Gov. Impact	X		Technical Concerns
X		Included in the Executive Budget	X		Significant Long-Term Impacts

Fiscal Analysis

ASSUMPTIONS:

1. The first $25,000 of market value will be exempted from class 8, business equipment only.
2. The taxable valuation rate will be 6% in tax year 2000 and future years.
3. The loss in tax revenue due to exempting the first $25,000 of market value of class 8 property on which the 95 mill is levied is $1,670,294 for FY2000 and $4,452,300 for FY2001.
4. The loss in tax revenue due to exempting the first $25,000 of market value of class 8 property on which the 6 mill university mill is levied is $105,492 for FY2000 and $281,198 in FY2001.
5. The loss in taxable value due to exempting the first $25,000 of market value of class 8 property is $46,268,532 for tax year 2000 and $47,841,662 for tax year 2001.
6. The loss in tax revenue due to exempting the first $25,000 of market value of class 8 property on which the 1.5 vo-tech mill is levied is $9,020 for FY2000 and $24,042 for FY2001.

7. The loss in tax revenue due to exempting the first $25,000 of market value of class 8 property on which the 9 mill state assumption of welfare is levied is $62,821 for FY2000 and $167,453 for FY2001.
8. Thirty eight percent of class 8 property taxes are paid in FY 2000 and 62% in FY2001 for tax year 2000 assessments. Thirty eight percent of class 8 taxes are paid in FY 2001 for tax year 2001 assessments.
9. The estimated taxable value loss under this bill is determined by exempting the first $25,000 of market value by assessor code of class 8 property that has a taxable valuation rate of 6% in 1998. That code is specific to a business that generates a separate tax bill.
10. Using the assessor code would eliminate the need to create a new record segment in BEVS (Business Equipment Valuation System), thus eliminating additional expense.
11. It will take 1,440 programming hours at a contracted rate of $60 per hour to modify the current personal property system (BEVS) to implement this proposal, plus an additional $6,000 in computer processing costs. These costs would only be incurred in the first year of the biennium for a total cost of $92,400 in FY2000.
12. The reduction in taxable values will cause school districts to increase GTB levies in FY2001 to maintain minimum budgets required under section 20-9-308(1)(a), MCA. (See technical note #4). The higher levies will increase the amount of state GTB aid by $1,136,757. In subsequent years the statewide GTB will be adjusted resulting in changes in state GTB aid.

FISCAL IMPACT:	FY2000 Difference	FY2001 Difference
Expenditures:		
School GTB		$1,136,757
Operating Expenses	$86,400	
Equipment	6,000	0
TOTAL	$92,400	$1,136,757
Funding:		
General Fund (01)	$92,400	$1,136,757
Revenues:		
General Fund (01)	($1,679,314)	($4,476,343)
State Special Revenue (02)	(168,313)	(448,651)
Net Impact to Fund Balance (Revenue minus Expenditure):		
General Fund (01)	($1,771,714)	($5,613,100)
State Special Revenue (02)	(168,313)	(448,651)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:
Local governments would lose $4,517,073 in FY2000 and $12,040,614 in FY2001.

LONG-RANGE IMPACTS:
The revenue loss for FY2002 and each succeeding fiscal year should be at FY2001 impact levels ($4,476,646 for general fund, $448,651 for state special revenue, and $12,040,614 for local government revenue) adjusted by the growth rate of class 8 property (estimated at 3.4% per year).

TECHNICAL NOTES:

1. As currently drafted, this bill exempts the first $25,000 or less of all personal property with the amendment to 15-6-201(r). Personal property is included in more classes of property than just class 8.

2. Not all class 8 property class codes are at the same percentage.

3. The bill replaces the original exemption of the first $15,000 market value of hand-held tools with this new exemption for the first $25,000 market value of all class 8 property. We allowed taxpayers to discontinue reporting their hand-held tools, as the amount was not even close to $15,000. We will need to start collecting that information again, so the value of the hand-held tools can become part of the new $25,000 exemption on the total.

4. School districts are required to budget at the BASE level under section 20-9-308 (1)(a), MCA. With the reduction in taxable values under this bill, provisions of CI75 will require voter approval to increase tax rates to continue to meet the minimum budget requirement. If voters do not approve the increase the district will be in violation of section 20-9-308, MCA.